



# Income – Rental and Schedules K-1

**Schedule K-1**  
(Form 1065)

Department of the Treasury  
Internal Revenue Service

For calendar year 2013, or tax  
year beginning \_\_\_\_\_, 2013

2013

☐ Final

**Part III**

1 Ordin

**Part I** **SCHEDULE E**  
**(Form 1040)** **Supplemental Income**  
(From rental real estate, royalties, partnerships, S  
Corporations, trusts, etc.)  
► Attach to Form 1040, 1041, or 1042  
► Information about Schedule E and its separate instructions

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on return

**Part I** **Income or Loss From Rental Real Estate and Royalties**  
(From rental real estate, royalties, partnerships, S corporations, trusts, etc.)  
Schedule C or C-EZ (see instructions). If you are an individual, report  
Schedule C or C-EZ (see instructions). If you are an individual, report  
Schedule C or C-EZ (see instructions). If you are an individual, report

**A** Did you make any payments in 2013 that would require you to file Form 1099?

**B** If "Yes," did you or will you file required Forms 1099?

**1a** Physical address of each property (street, city, state, ZIP code)

**A**

**B**

**C**

**D**

**1b** Type of Property (from list below)

**A**

**B**

**C**

**2** For each rental real estate property listed above, report the number of fair rental days and the number of personal use days. Check the **QJV** box only if you meet the requirements to treat the property as a qualified joint venture. See instructions.

**E**

**F**



# About Income – Rental and Schedules K-1

- Additional resources listed in L&LT “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise



## Objectives – Income – Rental and Schedules K-1

- Determine which types of rental income must be reported
- Identify how to report rental expenses
- Identify Schedule K-1 income items that are within the scope of the VITA/TCE programs
- Determine how to report Schedule K-1 income items
- Time Required: 60 minutes

# Topics



- Schedule K-1



- Rental Income and Expenses
- Depreciation
- Special Allocations
- Rental Loss



# Key Terms

Definitions are always available in the L&LT online Glossary.

- Actual Expense Method
- ADS
- At-risk Rule
- Basis
- Cash Method of Accounting
- Depreciation
- Investment Income
- Modified Accelerated Cost Recovery System (MACRS)
- Passive Activity
- Rental Expenses
- Rental Income
- Schedule K-1 (Form 1041)
- Schedule K-1 (Form 1065)
- Schedule K-1 (Form 1120S)
- Standard Mileage Method

# Schedule K-1

- Reports taxpayer's share of income and other distributions, deductions, and credits from partnerships, S corporations, and some estates and trusts
- Limited Schedule K-1 income topics (and reporting forms) are in scope
  - Interest income (Form 1040, line 8a, unless Schedule B is required)
  - Dividend income (Form 1040, line 9a, unless Schedule B is required)
  - Net short-term capital gains and losses (Schedule D, line 5)
  - Net long-term capital gains and losses (Schedule D, line 12)
  - Tax-exempt interest income (Form 1040, line 8b)
  - Royalty income (Schedule E) – only in scope if the source document is a Schedule K-1

# Rental Income and Expenses



- Generally, income from renting a room or home to a tenant is reportable on Form 1040, Schedule E
  - Property must have been rented at fair rental value – if not, income and expenses are reported differently, and it is out of scope
- Two methods of accounting:
  - Cash basis – most common
  - Accrual method – out of scope

SCHEDULE E (Form 1040)		Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (IRS)		▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ Information about Schedule E and its separate instructions is at <a href="http://www.irs.gov/schedulee">www.irs.gov/schedulee</a> .		<b>2013</b> Attachment Sequence No. <b>13</b>	
Name(s) shown on return				Your social security number	
<b>Part I</b> <b>Income or Loss From Rental Real Estate and Royalties</b> <b>Note.</b> If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.					
<b>A</b> Did you make any payments in 2013 that would require you to file Form(s) 1099? (see instructions)				<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>B</b> If "Yes," did you or will you file required Forms 1099?				<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>1a</b> Physical address of each property (street, city, state, ZIP code)					
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b> Type of Property (from list below)		<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box		<b>Fair Rental Days</b>	<b>Personal Use Days</b>
					<b>QJV</b>

# Rental Income and Expenses



What are common deductible rental expenses?

- Mortgage interest
  - Split between Schedule A and Schedule E if only part of the home was rented, or if the home was rented for only part of the year
- Property taxes
  - If any part of the property tax is a special assessment for local benefits, it is added to the basis of the property, and is not deductible
- Property insurance
- Auto and travel expenses related to the production of rental income
  - Standard mileage rate – 56.5 cents per mile
  - Actual expense method – out of scope
- Property repairs



# Rental Income and Expenses



Repairs vs. Improvements – common source of confusion

- Repairs:
  - Keep the property in good operating condition
  - Costs are current year deductions
- Improvements:
  - Add to the life or material value of the property, prolong its life, or adapts it to new uses
  - Costs must be depreciated over the useful life of the improvement

# Rental Income and Expenses Practice



- Review the Tax Map, [Allowable Rental Expenses – Illustrated Example](#)
- Try the Tax Your Memory activity in L&LT on recovering different types of rental expenses (slide 26)

Internal Revenue Service  
United States Department of the Treasury

LEVEL:

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★ LESSON: Income — Rental and Schedules K-1

Rental Income and Expenses Previous Next

### Topic Activity

#### Tax Your Memory

Florence incurred several expenses for her rental property, which she rented out all year. Determine whether and how she can recover each of the costs. Type a number in each blank to indicate how to recover each expense. (Some numbers may be used more than once or not at all.)

How to Recover Expense:	Expense:
1. Take full deduction on Schedule E for current year	<input type="text"/> Insurance premiums paid in advance
2. Split deduction on Schedules A and E	<input type="text"/> Broken window replacement
3. Pro rate on Schedule E over more than one year	<input type="text"/> Mortgage interest
4. Depreciation on Schedule E	<input type="text"/> Property tax

MATCH

# Depreciation



- What are some examples of depreciable property?
  - Buildings, machinery, furniture, vehicles, improvements to rental property
- Land and land improvements are *not* depreciable
- Three basic factors determine amount of depreciation:
  - Basis of the property
  - Recovery period for the property
  - Depreciation method used

# Depreciation



- To figure a deduction using the MACRS method of depreciation (Modified Accelerated Cost Recovery System) you need the property's:
  - Placed in service date
  - Recovery period
  - Depreciable basis
- What are recovery periods under MACRS?
  - It depends on the property class; see the table in [Pub 527](#) under MACRS Depreciation, or [Table B-1](#) in Pub 946

Table 2-1. **MACRS Recovery Periods for Property Used in Rental Activities**

*Keep for Your Records*



Type of Property	MACRS Recovery Period	
	General Depreciation System	Alternative Depreciation System
Computers and their peripheral equipment . . . . .	5 years	5 years
Office machinery, such as:		
Typewriters		
Calculators		
Copiers . . . . .	5 years	6 years
Automobiles . . . . .	5 years	5 years
Light trucks . . . . .	5 years	5 years
Appliances, such as:		
Stoves		
Refrigerators . . . . .	5 years	9 years
Carpets . . . . .	5 years	9 years
Furniture used in rental property . . . . .	5 years	9 years
Office furniture and equipment, such as:		
Desks		
Files . . . . .	7 years	10 years
Any property that does not have a class life and that has not been designated by law as being in any other class . . . .	7 years	12 years
Roads . . . . .	15 years	20 years
Shrubbery . . . . .	15 years	20 years
Fences . . . . .	15 years	20 years

# Special Allocations



## Rental vs. Personal Use

- Personal use of a dwelling unit can limit deductibility of rental expenses
- Mortgage interest and property taxes are allocated separately on both Schedules A and E if there is personal use
- Review the Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home in [Pub 17](#), Chapter 9, Rental Income and Expenses.

### Worksheet 9-1. Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home

Keep for Your Records



Use this worksheet only if you answer "yes" to all of the following questions.

- Did you use the dwelling unit as a home this year? (See [Dwelling Unit Used as Home](#).)
- Did you rent the dwelling unit at a fair rental price 15 days or more this year?
- Is the total of your rental expenses and depreciation more than your rental income?

#### PART I. Rental Use Percentage

- |  |          |
|--|----------|
| A. Total days available for rent at fair rental price .....                                | A. _____ |
| B. Total days available for rent (line A) but not rented .....                             | B. _____ |
| C. Total days of rental use. Subtract line B from line A .....                             | C. _____ |
| D. Total days of personal use (including days rented at less than fair rental price) ..... | D. _____ |
| E. Total days of rental and personal use. Add lines C and D .....                          | E. _____ |

# Rental Loss



- Passive Income vs. Active Participation – Taxpayers who are not active participants may not deduct rental losses that exceed rental income.
- Two restrictions on how much a loss from passive activity can offset other sources of income:
  - At-risk rule – taxpayer can claim a loss only up to the amount for which they are personally at-risk in the activity
  - Passive activity rule – losses that exceed rental income are not deductible
- For more information, see [Publication 925](#), Passive Activity and At-Risk Rules.

# Reporting Rental Loss



- When reporting passive rental loss, Form 8582 is generally not required if the taxpayer has:
  - Only one passive loss generated from a rental activity and
  - An AGI of less than \$100,000
- If in doubt, refer the taxpayer to the IRS or a professional tax preparer.

Version A, Cycle 6

**SCHEDULE E**  
(Form 1040)

Department of the Treasury  
Internal Revenue Service (IRS)

**Supplemental Income and Loss**  
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074  
**2013**  
Attachment Sequence No. 13

Information about Schedule E and its separate instructions is at [www.irs.gov/schedulee](http://www.irs.gov/schedulee).

Your social security number

**Part I** Income or Loss From Rental Real Estate and Royalties. *Note.* If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are:

**A** Did you make any payments in 2013 that would require you to file Form 1099?

**B** If "Yes," did you or will you file required Forms 1099?

**1a** Physical address of each property (street, city, state, and ZIP code)

**1b** Type of Property (from list below)

**2** For each rental real estate above, report the number of days the property was rented to a qualified joint tenant or a qualified partnership.

**Type of Property:**

1 Single Family Residence 3 Vacation/Short-Term Rental

2 Multi-Family Residence 4 Commercial

**Income:**

3 Rents received

4 Royalties received

**Expenses:**

5 Advertising

6 Auto and travel (see instructions)

7 Cleaning and maintenance

8 Depreciation

**Form 8582**

Department of the Treasury  
Internal Revenue Service (IRS)

**Passive Activity Loss Limitations**  
See separate instructions.  
Attach to Form 1040 or Form 1041.

OMB No. 1545-1008  
**2013**  
Attachment Sequence No. 88

Information about Form 8582 and its instructions is available at [www.irs.gov/form8582](http://www.irs.gov/form8582).

Name(s) shown on return

Identifying number

**Part I** 2013 Passive Activity Loss

**Caution:** Complete Worksheets 1, 2, and 3 before completing Part I.

**Rental Real Estate Activities With Active Participation** (For the definition of active participation, see Special Allowance for Rental Real Estate Activities in the instructions.)

**1a** Activities with net income (enter the amount from Worksheet 1, column (a))

**1b** Activities with net loss (enter the amount from Worksheet 1, column (b))

**1c** Prior years unallowed losses (enter the amount from Worksheet 1, column (c))

**1d** Combine lines 1a, 1b, and 1c

**Commercial Revitalization Deductions From Rental Real Estate Activities**

2a Commercial revitalization deduction from Worksheet 2, column (a)

2b Commercial revitalization deduction from Worksheet 2, column (b)

# Practice

- Select the practice exercise for Form 1040 Income line 17.
- Complete the exercise



# 4491 W

VITA/TCE Problems and Exercises **2013 RETURNS**  
Planning for the Elderly (TCE)

## Line 17—Rental Real Estate

When the Brooks moved to Samuel's first duty station, they could not sell their home. They asked a realtor friend to find a renter for them. It was available for rent July 1, 2011. They had records to show the income and expenses related to the rental property. They actively participated in their rental property.

It was rented on August 1, for \$700 per month. They collected \$3,500 in rent for 2011. Their rental expenses included \$135 to their friend for finding a renter and \$235 for yard maintenance and some small repairs. They paid \$400 per year for property insurance. They received Form 1098, *Mortgage Interest Statement*, from Oak Grove National Bank. The bank reported that they had paid \$5,815 in mortgage interest and \$1,380 in property taxes on their home, which was located in Maple Way, Your State.

Their friend computed this year's depreciation for them, which would be \$1,400. (This is calculated on an \$84,000 basis for depreciation, 27 and one-half-year recovery period, mid-month convention, and straight-line method. The basis for depreciation is the value of the property [\$90,000] less the value of the land [\$6,000] which is not depreciable.)

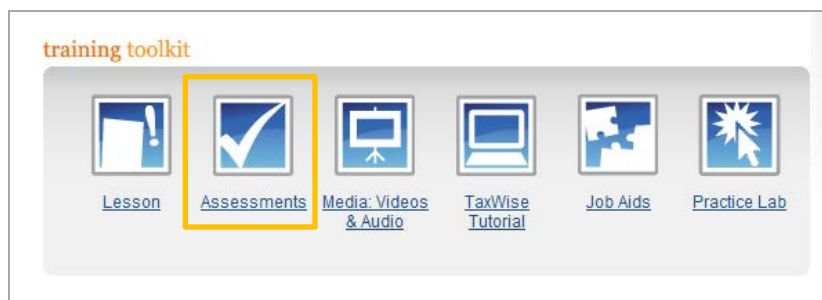
*Refund Monitor – Refund (Balance Due):* \$\_\_\_\_\_





# Summary

- This lesson covered:
  - Identifying Schedule K-1 income items that are within the scope of the VITA/TCE programs
  - Determining how to report Schedule K-1 income items
  - Determining which types of rental income must be reported
  - Identifying how to report rental expenses
- Check your understanding of this lesson by going to [Assessments](#) on your student landing page



## Schedule K-1 Items Within Scope:

- Interest income (Schedule B)
- Dividend income (Schedule B)
- Net short-term capital gains and losses (Schedule D)
- Net long-term capital gains and losses (Schedule D)
- Tax-exempt interest income (Form 1040, line 8b)
- Royalty income (Schedule E)



## Out of Scope for this Lesson:

- Income (not listed above), deductions, credits, and other items reported on Schedules K-1
- Royalty income reported on Form 1099-MISC
- Taxpayers who rent their property at less than fair rental value
- Rental-related interest expenses other than mortgage interest
- The actual expense method (auto and travel expense deductions)
- Casualty loss
- Completing Form 8582
- “Yes” answer to question A on Schedule E, indicating a Form 1099 filing requirement